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GOLD COVER

Prior to the inauguration of Franklin D. Roosevelt (March 4, 1933), the American dollar was fully redeemable. Anyone could take paper money to a bank and exchange it for gold (in coins or bars) at the official rate of $20.67 an ounce. Shortly after taking office, Roosevelt, by executive decree, forbade the use of gold as currency, forcing Americans to sell their gold to the government, for paper money which could no longer be redeemed.

On January 30, 1934, Congress passed Roosevelt's Gold Reserve Act, officially abolishing our standard gold dollar, prohibiting further gold coinage, forbidding Americans to use gold as currency, and making it impossible for them to redeem their paper dollars in gold.

The next day, Roosevelt devalued the paper dollar (the only time this has been done in American history) by declaring the price of gold to be $35 an ounce. This gave the government a windfall "profit" of $2.8 billion, and cheapened the people's money by 41%. Roosevelt had forced the people to sell, at $20.67 an ounce, gold which he raised to $35 an ounce by the simple act of saying the Treasury would pay that much for gold.[1]

Though it prevented Americans from redeeming paper dollars in gold, the Gold Reserve Act of 1934 provided that foreign governments and central banking systems could sell their American paper money to the U. S. Treasury for gold.

The gold standard had given the people a checkrein on government. If they disapproved the government's monetary policies, they could exchange their paper money for gold and keep the gold out of circulation. The government, unable to issue paper money not fully backed by gold and restricted in the amount of gold it could get, would thus be limited in what it could spend.

The Gold Reserve Act did not entirely eliminate the influence of gold on the monetary policies of government. The Act did not change the old "gold cover" provisions of the Federal Reserve Act of 1913

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— which required the government to keep enough gold to cover 35% of all Federal Reserve Banks' obligations to commercial banks, and enough to cover 40% of all Federal Reserve notes (paper money).[2] Consequently the government was compelled to keep a monetary gold reserve that had a relationship to the amount of paper currency issued. Most of the monetary gold reserve was stored at Ft. Knox, where it was divided into two piles: the *free pile* and the *anchor pile*. The free pile could be used for foreign redemption, or could be sold for authorized industrial use. The anchor pile had to remain, unused, as a "cover" for Federal Reserve obligations and for paper currency.

There is a significant relationship between our *monetary gold reserve* and our *international balance of payments.*

The difference between what we as a nation spend and give away abroad, and what foreigners buy from us, is called *balance of payments.* We suffer a balance-of-payments deficit when what we spend and give away abroad exceeds what foreigners buy from us. Every deficit creates foreign claims against our gold reserve: every nation that gets more from us than it spends with us accumulates a surplus of our paper dollars (or other American securities) which it can exchange for gold from our monetary reserve.

When we suffer a *balance-of-payments deficit* steadily, over a number of years, foreign governments accumulate such huge claims against our gold that they can bankrupt us by demanding more gold than we have in our monetary reserve.

For a while, there was no apparent danger that such a situation would ever develop.

In 1944, the United States had 60% of all known gold reserves in the world; the total of foreign claims against our gold was relatively insignificant; we had been enjoying surpluses in our annual balance of payments for almost 50 years.

Liberals and communists, claiming that world trade would stagnate if the U. S. continued to dominate the international monetary supply, demanded policies that would distribute our gold reserve to other nations. Consequently, the United Nations Monetary and Financial Conference was held at Bretton Woods, New Hampshire, in July, 1944. Controlled by Harry Dexter White (a communist spy who was Assistant Secretary of the U. S. Treasury Department), the Bretton Woods Conference proposed policies which, if adopted by the American government, would reverse our favorable balance-of-payments situation and siphon off our gold reserve to other nations.

Our government did adopt the Bretton Woods policies, and has followed them ever since.

In 1945, Congress abetted the scheme, by reducing the gold-cover requirement for Federal Reserve obligations from 35% to 25%, reducing the gold-cover requirement for paper currency from 40% to 25%.[2] This enabled the Treasury to transfer gold from the anchor pile to the free pile, where it could be used for foreign redemption.

In that same year — 1945 — the great giveaway of American resources to foreign nations began. First, there was United Nations Relief and Rehabilitation Administration, which poured out billions of American tax dollars to war-ravaged Europe. Then came the Truman Doctrine, which gave billions of American tax dollars to Greece and Turkey. Next was the Marshall Plan, which was supposed to be a temporary program of aid to Europe: it became permanent and worldwide. Then came the NATO agreement of 1949, committing the United States to defend European nations with American troops. This required annual expenditures of billions to maintain our own overseas forces, plus billions given to our allies for their military establishments.

In 1950, the annual balance of payments began running against us: the Bretton Woods plan to dissipate America's gold reserve was working well.

As early as 1951, I and a few other constitutional conservatives were warning that our gold reserve was shrinking and that disaster lay ahead if the policies of government were not reversed. We were called fools and crackpots.

Eisenhower was elected to "clean out the mess

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in Washington," but he made matters worse. In January, 1953, when the Eisenhower administration began, the U.S. gold reserve totaled $23.252 billion; foreign claims against it totaled $10.5461 billion.[3] In September, 1960, when the Eisenhower administration was drawing to a close, our gold reserve had shrunk below $19 billion; foreign claims against it had risen to about $24 billion; foreign nations were draining off our gold at a rate of $1.3 billion a year.

Kennedy was inaugurated in January, 1961. By May, 1961, our gold reserve had shrunk to $17.4 billion. On May 9, 1961, U.S. Representative Abraham Multer introduced a Kennedy administration bill to "solve the monetary crisis" — by eliminating the gold-cover provisions of the Federal Reserve Act. The *announced intent* of the Multer bill was to abolish the anchor pile in our monetary reserve, so that every ounce of our gold could be used for foreign redemption, leaving nothing to back domestic currency or Federal Reserve obligations.

Congress declined to pass the Multer Bill. For almost 4 years, the Kennedy-Johnson administrations proposed no solution for the gold problem. Reckless spending and deficit financing during that time further eroded our economic condition.

In January, 1965, the French government announced that it would begin exchanging American securities and dollars for gold.[4] Our gold reserve by then had shrunk to less than $15 billion; foreign claims against it had risen above $26 billion. Johnson did nothing to stop the outflow of gold, but asked Congress to reconsider the old Multer Bill. On February 18, 1965, Congress completed action on a compromise bill (HR 3818), which eliminated the requirement for 25% gold backing of Federal Reserve deposit liabilities, but did not eliminate the 25% gold backing for paper money.

Johnson said HR 3818 would stop the outflow of gold, by proving to foreign nations that we would keep our pledge to redeem our paper dollars in gold, thus giving them enough confidence in our currency to keep it rather than cash it in for gold. But the bill caused a run on our reserve. In less than a month after HR 3818 was passed, our gold loss in one week was twice as great as our total loss for the entire year 1964. The total loss of U.S. gold to foreign nations during the first 2½ months of 1965 was $825 million.

Johnson multiplied the spending that was causing our loss of gold.

By January, 1967, our gold reserve had dropped to $13.1 billion; by January, 1968, to $12.4 billion.

On January 1, 1968, Johnson made proposals to "strengthen our balance-of-payments position" and stop the outflow of gold. None of his proposals will help. Most of them will make matters worse. For proof, note how foreign nations made a run on our gold reserve immediately after Johnson made his proposals and pledged that "our full gold stock will back . . . [our] commitment" to redeem all foreign-held American currency and securities. By February 14, 1968, our gold reserve had dropped to $11.8 billion — a loss of $600 million in six weeks.

It is interesting to note that Johnson pledged our full stock of gold for foreign redemption on January 1, but did not ask Congress for authority to make such a pledge until January 17, when he delivered his State of the Union Message. In that message, Johnson asked Congress to eliminate the 25% gold backing for our domestic currency. A bill (HR 14743) to accomplish that purpose was introduced on January 22 by U. S. Representative Wright Patman. Patman's House Banking Committee approved the bill on February 1. The Senate Banking Committee is holding hearings on comparable bills, introduced by Senators William Proxmire and Jacob Javits. Thus far, the Committee has heard testimony only from liberals who approve the measure.

David Rockefeller, President of Chase Manhattan Bank and member of the Council on Foreign Relations, told the Senate Committee he favored the bill to abolish the gold cover for our currency, but admitted the measure "would in no basic way meet the serious international financial problems facing the United States."[5] Dr.

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Milton Friedman, professor of economics at the University of Chicago, testified in favor of abolishing the gold cover, but admitted that the measure "would not enable the United States to keep the price of gold at $35 an ounce, even though the administration has said it intends to do so."[5]

Many economists guess that the price of gold will rise to $70 an ounce within the next year or two. This means that foreigners who take our gold at $35 an ounce will make 100% profit on it.

The bill to remove the gold cover for our currency will accelerate, not stop, the outflow of gold, because present short-term foreign claims (more than $30 billion[6]) exceed our gold reserve ($11.8 billion and vanishing at the rate of $5.2 billion a year) by some $19 billion. Foreigners will rush to sell their American paper holdings for gold before it is too late. When every ounce of our gold is gone (probably in less than 2 years), we will have to default on foreign redemption — which is precisely what Johnson says he wants to avoid.

What should be done?

In the long run, Congress must repeal the Gold Reserve Act of 1934 and return this country to a gold standard; but that cannot be done until our national debt is reduced, and fiscal sanity restored. No monetary system could work with government taxing, borrowing, and squandering as at present.

What, then, should be done immediately?

Immediately, millions of Americans should write their U. S. Representatives and Senators, demanding that Congress refuse to pass HR 14743 or any other bill to remove the gold cover from our domestic currency. The requirement for 25% gold backing exercises some little restraint on government monetary policies (which is why Johnson wants it eliminated); and we should by all means keep that restraint.

Johnson's proposals for "solving" our balance-of-payments problem include not only the removal of the gold cover, but also the imposition of a travel tax on American tourists, and the curtailing of private American lending and investing abroad. Instead of accepting these ruinous police-state measures, Congress should devise some means of making foreign nations pay their debts to us.

France — which has been trying to wreck our dollar by draining off our gold — owes us $6.8 billion on her fifty-year-old World War I debts, $5 billion of which is past due. Seventeen nations still owe us $21.3 billion on World War I debts, $15.4 billion of which is past due.[7] On debts incurred during and since World War II, practically every nation on earth owes us money; and many are in arrears in their payments. Our gold-reserve problem would be temporarily solved, if they paid us what they owe us.

For the long run, Congress should trim the federal government down to constitutional functions. This would reverse the balance-of-payments situation, enable us to pay off the national debt, repeal the income tax, return to a gold standard, and embark on an unparalleled period of economic freedom and prosperity.

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FOOTNOTES

(1) "When The U.S. Did Devalue The Dollar," *U.S. News & World Report*, Feb. 19, 1968, pp. 96-7
(2) "History of Gold Cover," *Congressional Quarterly Weekly Report*, Jan. 26, 1968, p. 105
(3) Letter from U.S. Rep. Otto E. Passman (La. Dem.), July 15, 1964
(4) "France Clarifies Attitude On Gold," by Richard E. Mooney, *The New York Times*, Feb. 13, 1965, p. 25
(5) *The New York Times*, Feb. 2, 1968, p. 47
(6) Open letter by U.S. Rep. Otto E. Passman (La. Dem.), Aug. 22, 1967, 4 pp.
(7) 1968 *World Almanac*, p. 736

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